FINAL TRANSCRIPT

ProntoForms Corporation

Fourth Quarter 2021 Results Conference Call

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PRESENTATION

Operator

Good day and welcome to the ProntoForms Corporation Fourth Quarter 2021 Results Conference Call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Babak Pedram. Please go ahead.

Babak Pedram — Investor Relations, Virtus Advisory Group Inc.

Thanks very much, Samara (phon). Good morning, everyone. Before we begin, I will read our cautionary note regarding forward-looking information.

Certain information to be discussed during this call contains forward-looking statements within the meaning of applicable security laws, including, among others, statements concerning the Company's 2022 objectives, the Company's strategy to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Such forward-looking statements reflects management's current beliefs and are based on information currently available to management and are subject to a number of significant risks and uncertainty that could cause actual results to differ materially from those anticipated.

Also, our commentary today will include adjusted financial measures, which are non-GAAP measures. These should be considered as a supplement to and not as a substitute for GAAP financial measures. Reconciliations between the two can be found in our MD&A, which is available on sedar.com and our website.

And finally, note that because we report in US dollars, all amounts discussed today are in US dollars unless otherwise indicated.

With that, I will hand over the call to our CEO, Mr. Alvaro Pombo, to go over our operational highlights for the quarter.

Alvaro Pombo — Chief Executive Officer, ProntoForms Corporation

Thank you, Babak, and thank you, Samara. Good morning, everybody, and welcome to our company's conference call.

Before I hand the call over to our CFO, David Croucher, to discuss this quarter's financials, I would like to take some time to discuss the ProntoForms business.

We are pleased to report that our annual recurring revenue, ARR, increased by 15.6 percent in 2021 compared to 8.7 percent in 2020. Our base is now $19.8 million, with 41 percent from 29 customers greater that $100,000 of ARR each.

The Company has many existing large accounts with at least that $100,000 potential, and this is where we have been focusing and investing in. We hired a new CRO, Mike Kramer, in Q3, a great addition to the team. We have been successfully attracting and recruiting more enterprise sellers. We have the team in place, more sophisticated playbooks for expansion, better use case subscriptions based on quantifiable ROI, and we're in full execution mode. We see a clear path of scalable execution by connecting with our customers to help them accelerate their digital transformation in the field by expanding the use of our product.

I believe that 2021 was the year when we decisively moved to enterprise. We also focused on much better and structured storytelling based on four key premises.

Number one, the Company and its culture. We have a very stable company with a great culture, a company that people want to work with and work for. Our NPS and retention in the enterprise segment is high, and companies see us as a trusted partner in their evolution. Even in these difficult times, we have managed to attract great talent. Customers, candidates, and employees agree that we are a great team that cares.

Field technicians and citizen developers, we're very centred on them. These are two key personas. They are our champions in our customers' organizations because we made their job safer and more efficient and rapidly enabled the outcomes they need. We have several public endorsements from them.

The third element is agility. Our product delivers solutions with tangible ROI in record time. Eighty-nine percent of customers credit ProntoForms with reduced administrative burdens; 83 percent report an increasing technician's job satisfaction; and 65 percent noted an improvement in first-time fix rates. Also of notice is that 60 percent of our customers implement their solution in 4 to 8 weeks, 20 percent in less than 4 weeks, and only the remaining 20 percent in over 8 weeks. Our world is moving at an incredible speed. The need to automate has never been greater and iterating in days or weeks is a material benefit to a multiquarter and sometimes years of implementations that other methods trap them into.

Fourth, solutions. Many of our customers have tens if not hundreds of use cases running on ProntoForms. Sharing and creating spaces to exchange them or improving them is of tremendous value to our customers, and we're starting to do this at a higher scale.

Just as I'm delivering this sentence, two forms with an average of 34 questions have been processed by our system. Last week in San Diego, we displayed these four elements at the Field Service

Medical show, the largest medical field service event in the industry. I was honoured to give the keynote at this event as well as host an invitation dinner to our large medical customers and prospects, which are about 30 these days. Our proposition resonated strongly with them.

And speaking of customers, let me give you some examples of the conversations we're having with them. Medical equipment vendors are very busy these days. The majority of them are finishing the long and sometimes painful implementation of their Field Service Management systems, and they're flooded with cash, buying others. Compliance requirements keep on evolving and changing. They need to automate faster all the pieces of that Field Service Management systems—FSMs we call them—didn't do. And the field keeps on requiring more. They need agility. They need packaged solutions that they can quickly deploy. They need a tool to automate processes, collect better data, improve efficiency and compliance without having to wait years or spend millions of dollars.

Construction companies are not different. Their safety mandates are very real, and their equipment is more complex every day. Projects evolve and change all the time, and they're all in a mission to automate as much as they can. They can't find people. It's hard to onboard them. And the world has to be revealed for environmental or economic reasons in record time. Fast and easy automation today with ROI measure in one is very appealing for them. We are involved with some of the leaders in this industry and satisfying their use cases.

In the press release, there are various examples of these conversations evolving into expansions, either geographical or across use cases; some of them extending FSM, safety and compliance systems, or asset management systems, or a standalone. We continue to please our customers with the best mobile solution for their technicians in the marketplace.

I'm very happy with our product. It's evolving in support of all our strategies. We continue to improve our integrations with the platforms above mentioned and other suite vendors. Our open approach to partnering and integration doesn't go unnoticed. We're also packaging better the use cases that we thrive in, as well as improving our ability to tell these stories within and across verticals.

In summary, as CEO, I'm very proud of our transition towards enterprise and accelerating our pace of capturing this great market. It is an exciting time to be in the industry but even more exciting to be servicing those field technicians that serve us all the time.

I will now defer to Dave to discuss our financial results for the quarter. Dave?

Dave Croucher — Chief Financial Officer, ProntoForms Corporation

Thank you, Alvaro. Good morning. Nice to have everyone on the call. We'll go through the financial highlights, but I won't repeat all the detail included in our MD&A.

Total revenue in Q4 2021 was $5.0 million, a 2 percent increase from Q3 2021 and a 6 percent increase from Q4 2020. Total revenue for the 2021 year was $19.4 million, a 10 percent increase from 2020.

Recurring revenue was $4.8 million in the quarter, an increase of 3 percent sequentially and an increase of 11 percent year over year. Recurring revenue for the 2021 year totalled $18.3 million, compared to $16.2 million in 2020, an increase of 13 percent.

Our annualized recurring revenue base, or ARR, as at December 31, 2021, was $19.8 million, representing an increase of 3 percent sequentially and an increase of 16 percent from December 31, 2020. Customers with greater than 100K of ARR represented 41 percent of our base, consistent with Q3 2021, and up 39 percent from a year ago.

To recap 2021 bookings, we saw steady bookings and an improvement in the growth over 2020. Enterprise recurring revenue grew at a higher pace than our other segments, but we are looking for more growth in that area. We changed our sales leadership mid-2021 and added new vertical and use case messaging, and we are ramping up the number and quality of reps within our enterprise sales team. We are poised to continue to ramp our sales team to tap into our strong stable of enterprise logos and increase their adoption.

Revenue from professional services was $210,000 in Q4 2021, a decrease of 8 percent sequentially and a decrease of 48 percent from Q4 2020. For the year, pro services revenue totalled $1 million even, down 29 percent year over year. Recall that we had a large contract in 2020 for certain enterprise features that caused 2020 professional services' revenue to be higher than normal.

Gross margin on total revenue for the fourth quarter was 84 percent, consistent with Q3. On the year, gross margin was 85 percent, as it was in 2020.

Gross margin on recurring revenue in Q4 2021 was 90 percent, fairly consistent with 89 percent last quarter and 91 percent in Q4 2020. Gross margin on recurring revenue for the year was 90 percent, down from 92 percent last year. Recall that we received pandemic-related funding in 2020 that reduced cost of sales and resulted in margins slightly higher than normal in that period.

Operating expenses in Q4 2021 were $5.3 million, an increase of 3 percent sequentially, and up 15 percent from Q4 2020. Operating expenses in the 2021 year were $20.5 million, representing an increase of 28 percent from 2020. As mentioned, we are committed to investing in go-to-market product development and messaging to push for more enterprise growth.

Loss from operations in Q4 2021 was $1.0 million, versus $997,000 in Q3 2021 and a loss of $574,000 in Q4 2020. For the full year, loss from operations was $4.2 million compared to $957,000 in 2020.

Net loss for Q4 2021 was $1.1 million, versus $1.1 million in the third quarter of 2021 and $915,000 in Q4 2020. For the 2021 year, net loss was $4.5 million compared to $1.5 million in 2020.

Non-GAAP loss from operations for Q4 was $618,000, down from $820,000 in Q3 2021 and up from $341,000 in Q4 of 2020. Non-GAAP loss from operations for the 2021 year was $3.3 million compared to $330,000 for 2020.

Our cash balance at the end of 2021 was $6.1 million, compared to $7.7 million at December 31, 2020.

As announced, we recently added financial capacity by increasing our TD debt facility from C$6 million to C$10 million. The access to additional funds gives us more flexibility to execute on our growth strategy for at least the next two years.

To conclude, 2021 was a contrast to the lower growth and lower EBITDA losses we saw in 2020. We are fortunate in our growing SaaS business that we can toggle the rate of spend faster or slower to match market conditions or push for growth. We are encouraged by the steadiness of net bookings in 2021 and by the progress we are making with existing customer use case expansion and adding new enterprise logos with strong potential for expansion.

We are committed to investing more in enterprise products and sales to push our go-to-market activities to take advantage. We want to get back to the compounding nature of growth and reinvestment in sales and marketing to get even more growth. With our cash balance and the added capacity of the TD line, we feel that we have the resources to execute on our growth strategy.

With that, I will pass it back to Samara for questions.

Q&A

Operator

Thank you. If you would like to ask a question, please signal by pressing *, 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press *, 1 to ask a question, and we'll pause for just a moment to allow everyone an opportunity to signal for questions. And again, it's *, 1 to ask a question.

And we'll take our first question from Gabriel Leung with Beacon Securities. Please go ahead.

Gabriel Leung — Beacon Securities

Morning. Thanks for taking my questions. Just a couple of quick things. Dave, just on the operating expenses as they go through calendar 2022, how should we think about that moving over the course of the year, just given some of the investments you're looking to continue to make in sales and marketing and in R&D?

Dave Croucher

Okay. Yeah. Our EBITDA, our non-GAAP op loss was $3.3 million last year. Expect it will go up somewhat this year. We try to keep it within reason, but if you think of where we're at with the enterprise process or transitioning to enterprise sales, we spend more earlier on to add the team, and then it takes a little bit of time for them to ramp. So in the first half of the year, the EBITDA losses will be a little higher, but coming back in the second half of the year as we start to see the revenue results from that. So just a moderate increase from last year, I think, is to be expected.

Gabriel Leung

I got you. Do you have an updated sales rep headcount for the end of ‘21 and where you are currently now? And sort of what the expectation is for the end of ‘22?

Dave Croucher

Yeah. I think the fully built-out team has low 20s, just over 20. Perhaps it’s less about the total numbers; it’s more about the quality. And we’ve made really good progress. Not so much by December 31, but early in January, we added, I think, four really good expansion reps and one really good new enterprise rep. So really good additions to the team. But, of course, they need to get up to speed on what we do and get comfortable.

They’ve been assigned enterprise accounts, and we expect, as they start working with them and get up to speed on our messaging and see how they can take advantage of the use cases and get the ROI results, then be able to create more opportunities with those accounts over the next couple of quarters.

Gabriel Leung

Gotcha. And when I look at the year-over-year growth and the recurring revenues in Q4, was there still some impact from the AT&T channel on the year-over-year basis, which I presume will be gone as we look at Q1 calendar ‘22?

Dave Croucher

Q1 2021 was basically flat recurring revenue growth because of the flat bookings growth in Q4 2020. So yeah. That did impact, I think it was about 6 percent churn effect we had in the Q4 2020 bookings, and then that rolled through into the Q1 2021 recurring revenue. So yeah. It did have—that’s all gone now. AT&T is gone from our base at the end of 2020.

And then we had another channel in Mexico that churned out in Q3 and had a 1 percent impact, I think. And now the operator stuff is down to, I think, between 2 percent and 3 percent of our base but spread out between I think five operators or so and mostly just small accounts, a large collection of small accounts. So we don't think any one of those would be material to our churn rates going forward.

Gabriel Leung

Gotcha. And then, Alvaro, just as you look into calendar '22 and sort of the opportunities ahead of you, are you seeing any changes in terms of the enterprise spending cycles? Have they improved now? And when you think about growth, is the expectation that calendar '22, you can sort of get back to that with investments you've made and sort of a better environment, get back to that sort of 25 percent growth, year-over-year growth, in recurring revs again?

Alvaro Pombo

Yes. I mean, the answer is yes, we do. And what we're seeing is much better execution with our existing customers on that expansion. And what I'm seeing, as I said in the example, I mean, two examples, in the medical equipment and constructions, but I think it's across the board, everybody's in a big rush to automate the field in particular, which is our area of focus. So I'm seeing all the right environment, all the right conversations, and the urgency, which is the key piece of the puzzle that is hard to create.

Gabriel Leung

Gotcha. No. Thanks for the feedback, and congrats on the quarter.

Alvaro Pombo

No. Gabriel, thanks for joining us.

Operator

And we'll take our next question from Abbas Irtiza with PI Financial. Please go ahead.

Abbas Irtiza — PI Financial

Hi. Thanks for taking my questions. Just coming back to sales for a second, could you talk about your experience growing your sales team? I mean given it's a hot market right now, how do you find the right cadence and incentivize them?

Alvaro Pombo

Yeah. Abbas, thank you for joining us. Look. The way I look at it is, it comes from the leader, the way you can attract good talent. And we hired a very good CRO in Q3, as I mentioned. I mean, that kind of leader comes with some followers but, more important, with a network around in terms of headhunters, et cetera. So I, myself, I'm impressed at the speed that we manage to attract these people.

You have to pay. Okay? You have to pay. And salespeople like that, they're expensive. And we're paying, and we're bringing them. I mean, we're paying market. We're not going for stupidity, but we've managed to get some people that, why are they moving to ProntoForms.

People are also tired of the very large logo, and it's getting harder to make money in some of those cases. And they want an experience with something more agile. So we brought some people, some very good backgrounds, and I actually am, myself, surprised how well it happened very early in the year.

Abbas Irtiza

Got it. Okay. Thank you for that. And just one more from me. Could you talk about what you're seeing from the partner channel in terms of revenue contributions? Are there any new potential partnerships on the horizon that you're excited about?

Alvaro Pombo

Yeah. Yeah. Look, Abbas, the way partners, we used to have mainly ServiceMax that evolved into Salesforce. And we have those two going at the same pace. Actually, Salesforce is accelerating. The number of customers that we're getting from Salesforce is getting better. And we are also engaged with

Microsoft and starting to get more engaged as well with ServiceNow. So all those four, they suffer from the same problem. And we have a solution to their suffering, and we're getting closer and better executing on that partner.

Now partners take a while to bring you to the table. In the case of Salesforce, we're now at a level of partnership where they can retire quota, where sales reps are—I mean they get the higher level of return from bringing us to the table. So we're starting to see a lot more on that and putting more resources to engage with those kinds of suites. They're big. So getting into them takes a while. But it's starting to work.

Abbas Irtiza

Okay. Great. Thanks for taking my questions.

Alvaro Pombo

Thank you.

Operator

It appears there are no additional questions at this time.

Alvaro Pombo

Okay. Thank you. So, as we said, we plan to continue investing in our product and go-to-market focus on enterprise. We're excited about the future. And personally, I am very excited about it. I clearly see the growth opportunities for our customers, both geographically and new use cases. Those conversations are very exciting that are taking place right now.

And I want to thank everybody who is spending your time with us this morning. And as always, I would like to thank you for your continued support. So thanks, everybody.

Operator

This concludes today’s call. Thank you for your participation. You may now disconnect.